

## Message Text

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SUBJECT: PEPSICO SIGNS DEAL TO CONSTRUCT THREE MORE BOTTLING  
PLANTS IN USSR

1. SUMMARY. PEPSICO CHAIRMAN KENDALL AND SOVIET OFFICIALS SIGNED TWO AGREEMENTS AUGUST 18 PROVIDING FOR CONSTRUCTION OF THREE ADDITIONAL PEPSI COLA BOTTLING PLANTS IN USSR AND EXCHANGE OF HIGHER, BUT UNSPECIFIED, VOLUMES OF PEPSI CONCENTRATE AND SOVIET VODKA. NEW PLANTS, WHEN IN PRODUCTION, WILL INCREASE PEPSI VOLUME TO 15 MILLION CASES PER YEAR. KENDALL REFUSED TO GIVE PRESS ANY DETAILS ABOUT VALUE OF THIS BARTER EXCHANGE. SOVIET TRADE OFFICIAL TOLD PRESS THAT CURRENT SOVIET HARD CURRENCY DEBT IS TEN BILLION DOLLARS. IN DISCUSSING PEPSICO-SOVIET TRADE NEGOTIATION WITH AMBASSADOR, KENDALL MENTIONED HEARING THAT COCA COLA HAS OFFERED USSR \$10 MILLION FOR RIGHTS TO SELL ITS PRODUCT AT 1980 OLYMPIC GAMES. ANY CONCESSIONARY SALES RIGHTS FOR COCA COLA WOULD BE LIMITED TO PERIOD OF GAMES. END SUMMARY.

2. DONALD KENDALL, CHAIRMAN OF BOARD AND CHIEF EXECUTIVE OFFICER OF PEPSICO, SIGNED TWO MAJOR CONTRACTS IN MOSCOW AUGUST  
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18 WHICH TOGETHER PROVIDE FOR THE CONSTRUCTION OF THREE NEW

PEPSI-COLA BOTTLING PLANTS IN THE USSR (AT MOSCOW, LENINGRAD, AND TALLINN) AS WELL AS FOR THE EXCHANGE OF EQUIVALENT AMOUNTS OF PEPSI CONCENTRATES AND STOLICHNAYA VODKA. (NEW FACILITIES WILL INCREASE PEPSI ANNUAL OUTPUT TO 15 MILLION CASES PER YEAR, 3 MILLION AT EACH OF 5 PLANTS.) SIGNING FOR THE SOVIETS WERE THE CHAIRMAN OF SOYUZPLODOIMPORT F.T.O., YURIY ZHIZHIN, FOR THE VODKA/PEPSI-COLA CONCENTRATE PART OF THE TRANSACTION, AND DEPUTY CHAIRMAN OF TEKHNOPROMIMPORT F.T.O., KONSTANTIN PARMENOV, FOR THE EQUIPMENT AND MACHINERY PORTION. DEPUTY MINISTERS OF FOREIGN TRADE ALKHIMOV, KOMAROV AND SUSHKOV ATTENDED CEREMONY. NEWLY-DESIGNATED VICE PRESIDENT FOR THE US/USSR TRADE AND ECONOMIC COUNCIL IN MOSCOW RICHARD O'BRIEN WAS ALSO PRESENT AS AN OBSERVER, AS WERE ECON COUNSELOR AND COMATT. MEMBERS OF WESTERN AND SOVIET PRESS CORPS WERE ON HAND BOTH FOR SIGNING CEREMONY AND PRESS CONFERENCE HELD IMMEDIATELY THEREAFTER.

3. IN REMARKS AFTERSIGNATURE, KENDALL NOTED THAT CONCLUSION OF THIS MAJOR DEAL MARKED IMPORTANT NEW PHASE IN PEPSICO'S LONG-TERM EFFORTS, BEGUN IN 1973 WITH CONSTRUCTION OF BOTTLING PLANT AT NOVOROSSISK, TO ESTABLISH MARKETS FOR PEPSI-COLA IN THE SOVIET UNION AND FOR RUSSIAN VODKA IN THE UNITED STATES. KENDALL SAID THAT BOTH PROJECTS HAD ALREADY MET WITH SUCCESS FAR IN ADVANCE OF EARLIER PROJECTIONS. NOTING THAT SETBACKS IN OUR RELATIONS HAD OCCURRED FROM TIME TO TIME, KENDALL NEVERTHELESS SAW IN THESE CONTRACTS EVIDENCE OF A CONTINUING POSITIVE TREND TOWARD COOPERATION IN THE COMMERCIAL SPHERE. HIS VIEWS WERE LARGELY ECHOED BY ZHIZHIN AND PARMENOV IN THEIR REMARKS, AS WELL.

4. RESPONDING TO QUESTIONS FROM PRESS, KENDALL MADE FOLLOWING POINTS OF INTEREST:

- THE VODKA/PEPSI-CONCENTRATE EXCHANGE WAS PURE BARTER. ALTHOUGH HE REFUSED TO BE SPECIFIC AS TO VALUES INVOLVED, HE DID SAY THAT "EQUIVALENT" AMOUNTS OF VODKA WERE TO BE RECEIVED BY PEPSICO FROM SOYUZPLODOIMPORT IN PAYMENT FOR SHIPMENTS OF COLA CONCENTRATE.

- CONSTRUCTION (BY SOVIET ENGINEERS) OF THE THREE NEW LIMITED OFFICIAL USE

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PLANTS, EACH EQUAL IN SIZE TO THE TWO PRESENT PLANTS, WILL BEGIN IN 1977, WITH PRODUCTION TO BEGIN IN MID-1978. PEPSICO TECHNICIANS WILL ASSIST IN THE INSTALLATION OF MACHINERY AND BOTTLING EQUIPMENT, WHICH WILL BE SUPPLIED FROM WEST GERMAN SOURCES. RESPONSIBILITY FOR PLANT START-UPS WILL BE PEPSICO'S.

- NO CREDIT TERMS ARE INVOLVED IN DEAL, WITH SOVIETS PAYING CASH FOR WEST GERMAN EQUIPMENT THROUGH PEPSICO.

KENDALL SAID THAT SOVIETS GEAR PURCHASES OF PEPSI CONCENTRATE TO THE AMOUNTS OF THEIR VODKA SOLD IN US. APPARENTLY, AMOUNT OF LATTER HAS BEEN CONSIDERABLE BECAUSE KENDALL STATED THAT PEPSICO'S ONGOING ARRANGMENT WAS NOW TWO YEARS AHEAD OF SCHEDULE IN TERMS OF VOLUME. (KENDALL TOLD US THAT PRESENT TRENDS INDICATE VOLUME OF VODKA IMPORTS INTO US COULD SUPPORT THE EARLY CONSTRUCTION OF A TOTAL OF 25 PEPSI-COLA BOTTLING PLANTS IN THE USSR. HE SAID HIS LONG-TERM GOAL WAS 50 PLANTS.)

5. KENDALL ARGUED THAT WITH EX-IM BANK HELP, \$2 BILLION IN CREDITS WOULD RESULT IN \$6 BILLION IN TOTAL EXPORT SALES, WITH A CONSEQUENT EXPANSION OF DOMESTIC EMPLOYMENT (HE USED A FIGURE OF \$50,000 IN EXPORTS BEING EQUAL TO ONE AMERICAN JOB.) DENIAL OF THESE CREDIT LINES BY UNITED STATES HAD MEANT, IN KENDALL'S ESTIMATE, THAT THE SOVIETS HAD TURNED TO OTHER WESTERN SUPPLIERS FOR CREDITS WHICH NOW TOTALLED AROUND \$8 BILLION. DEPUTY MINISTER ALKHIMOV INTERRUPTED KENDALL AT THIS POINT TO SAY THAT THE CORRECT FIGURE FOR TOTAL WESTERN (HARD-CURRENCY) CREDITS EXTENDED TO THE SOVIETS WAS NOW \$10 BILLION. KENDALL CONCLUDED THE PRESS INTERVIEW WITH STATEMENT THAT BUSINESS LOST TO OTHER WESTERN COMPETITORS TODAY NOT ONLY AFFECTED CURRENT U.S. PERFORMANCE IN THE SOVIET MARKET BUT ALSO THAT FOR MANY YEARS AHEAD BECAUSE OF LOSE OF SPARE PARTS REPLACEMENT BUSINESS, FOLLOW-ON SERVICE, AND THE LIKE.

6. IN CALL ON AMBASSADOR, KENDALL MENTIONED THAT COCA COLA IS SEEKING SOVIET AUTHORIZATION TO SELL ITS PRODUCT AT 1980 OLYMPIC GAMES AND HAD ALREADY OFFERED \$10 MILLION FOR SUCH RIGHTS, AS CONTRASTED WITH \$3 MILLION OFFERED IN MONTREAL. HE NOTED THAT SOVIET AUTHORIZATION OF SALE BY COCA COLA WOULD APPLY ONLY TO OLYMPIC GAMES. KENDALL STATED HE WAS NOT DISTURBED BY THIS DEVELOPMENT AND WAS NOT INTERESTED IN LIMITED OFFICIAL USE

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SELLING PEPSI COLA AT THE OLYMPICS. HE SAID THAT PEPSICO WAS INTERESTED IN MAINTAINING ITS LONG TERM POSITION IN THE USSR AND FELT CONFIDENT THAT IT WOULD DO SO.  
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